

No.

In the Supreme Court of the United States

COSTCO WHOLESALE CORPORATION,

Petitioner,

v.

OMEGA, S.A.,

Respondent.

**On Petition For A Writ Of Certiorari
To The United States Court Of Appeals
For The Ninth Circuit**

PETITION FOR A WRIT OF CERTIORARI

ROY T. ENGLERT, JR.

Counsel of Record

ARIEL N. LAVINBUK

ROBBINS, RUSSELL,

ENGLERT, ORSECK,

UNTEREINER & SAUBER

LLP

1801 K Street, N.W.

Washington, D.C. 20006

(202) 775-4500

Counsel for Petitioner

QUESTION PRESENTED

Under the Copyright Act's first-sale doctrine, 17 U.S.C. § 109(a), the owner of any particular copy "lawfully made under this title" may resell that good without the authority of the copyright holder. In *Quality King Distribs., Inc. v. L'Anza Research Int'l, Inc.*, 523 U.S. 135, 138 (1998), this Court posed the question presented as "whether the 'first sale' doctrine endorsed in § 109(a) is applicable to imported copies." In the decision below, the Ninth Circuit held that *Quality King* (which answered that question affirmatively) is limited to its facts, which involved goods manufactured in the United States, sold abroad, and then re-imported. The question presented here is:

Whether the Ninth Circuit correctly held that the first-sale doctrine does not apply to imported goods manufactured abroad.

RULE 14.1(b) AND 29.6 STATEMENT

Pursuant to Supreme Court Rule 14.1(b), petitioner, Costco Wholesale Corporation states that all parties to the proceeding below appear in the caption of the case on the cover page.

Pursuant to Supreme Court Rule 29.6, petitioner states that Davis Selected Advisers, LP controls 10% or more of petitioner's corporate stock.

TABLE OF CONTENTS

	Page
QUESTION PRESENTED.....	i
RULE 14.1(b) and 29.6 STATEMENT	ii
TABLE OF AUTHORITIES.....	v
PETITION FOR A WRIT OF CERTIORARI	1
OPINIONS BELOW	1
JURISDICTION	1
STATUTORY PROVISIONS INVOLVED	1
STATEMENT	2
A. THE COPYRIGHT ACT AND <i>QUALITY KING</i>	3
B. FACTUAL BACKGROUND	4
C. PROCEEDINGS BELOW	6
REASONS FOR GRANTING THE PETITION	7
I. THE NINTH CIRCUIT’S OPINION IS INCONSISTENT WITH THE PLAIN LANGUAGE OF THE COPYRIGHT ACT AND WITH THIS COURT’S INTERPRETATION OF THAT LANGUAGE IN <i>QUALITY KING</i>	9
II. THE ISSUE IS OF GREAT IMPORTANCE	20
III. THE ISSUE IS READY FOR THIS COURT’S REVIEW	25
CONCLUSION	30
 APPENDIX A	
<i>Omega S.A v. Costco Wholesale Corporation</i> , 541 F.3d 982 (9th Cir. 2008).....	1a

TABLE OF CONTENTS—continued

	Page
APPENDIX B	
<i>Omega S.A v. Costco Wholesale Corpora-</i> <i>tion</i> , No. 04-cv-05443 TJH (RC), Order and Judgment (C.D. Cal. Feb. 6, 2007)	18a
APPENDIX C	
<i>Omega S.A v. Costco Wholesale Corpora-</i> <i>tion</i> , Nos. 07-55368, 07-56206, Order De- nying Rehearing En Banc (9th Cir. Feb. 17, 2009)	20a

TABLE OF AUTHORITIES

	Page(s)
CASES	
<i>BMG Music v. Perez</i> , 952 F.2d 318 (9th Cir. 1991).....	6
<i>Bobbs-Merrill Co. v. Straus</i> , 210 U.S. 339 (1908).....	2
<i>CBS v. Scorpio Music Distributions</i> , 569 F. Supp. 47 (E.D. Pa. 1983), <i>aff'd without op.</i> , 738 F.2d 424 (3d Cir. 1984)	6, 8
<i>Dean v. United States</i> , 129 S. Ct. 1849 (2009).....	13
<i>Disenos Artisticos E Industriales S.A. v. Costco Wholesale Corp.</i> , 97 F.3d 377 (9th Cir. 1996).....	22
<i>EEOC v. Arab. Am. Oil Co.</i> , 499 U.S. 244 (1991).....	19
<i>ICC v. J-T Transp. Co.</i> , 368 U.S. 81 (1961).....	16
<i>Keene Corp. v. United States</i> , 508 U.S. 200 (1993).....	16
<i>L'Anza Research Int'l, Inc. v. Quality King Distributions, Inc.</i> , 98 F.3d 1109 (9th Cir. 1996)	25
<i>Lamie v. U.S. Trustee</i> , 540 U.S. 526 (2004).....	11
<i>LG Elecs., Inc. v. Hitachi, Ltd.</i> , No. C 07-6511, 2009 WL 667232 (N.D. Cal. Mar. 13, 2009)	20, 21
<i>Lingo Corp. v. Topix, Inc.</i> , No. 01-CIV-2863, 2003 WL 223454 (S.D.N.Y. Jan. 31, 2003)	27

TABLE OF AUTHORITIES—continued

	Page(s)
<i>Microsoft Corp. v. Big Boy Distrib. LLC</i> , 589 F. Supp. 2d 1308 (S.D. Fla. 2008).....	28
<i>Microsoft Corp. v. Cietdirect.com LLC</i> , No. 08-60668-CIV, 2008 WL 3162535 (S.D. Fla. Aug. 5, 2008).....	27
<i>Microsoft Corp. v. Intrax Group, Inc.</i> , No. C-07-1840, 2008 WL 4500703 (N.D. Cal. Oct. 6, 2008).....	28
<i>New York Gaslight Club, Inc. v. Carey</i> , 447 U.S. 54 (1980).....	9
<i>Nken v. Holder</i> , 129 S. Ct. 1749 (2009)	12
<i>Parfums Givenchy v. Drug Emporium</i> , 38 F.3d 477 (9th Cir. 1994).....	28, 29
<i>Pearson Educ., Inc. v. Liao</i> , No. 07-CIV- 2423 WL 2073491 (S.D.N.Y. May 13, 2008)	27
<i>Quality King Distribs., Inc. v. L’Anza Research Int’l, Inc.</i> , 523 U.S. 135 (1998).....	passim
<i>Quanta Computer, Inc. v. LG Elecs., Inc.</i> , 128 S. Ct. 2109 (2008).....	21
<i>Red Baron-Franklin Park, Inc. v. Taito Corp.</i> , 1989 Copyright L. Dec. (CCH) ¶ 26,352 (E.D. Va. 1988).....	25
<i>Red Baron-Franklin Park, Inc. v. Taito Corp.</i> , 883 F.2d 275 (4th Cir. 1989), <i>cert. denied</i> , 493 U.S. 1058 (1990).....	25
<i>Regents of Univ. of Cal. v. Pub. Emp. Rel. Bd.</i> , 485 U.S. 589 (1988)	9
<i>Sebastian Int’l Inc. v. Consumer Contacts (PTY) Ltd.</i> , 847 F.2d 1093 (3d Cir. 1988)	13, 25, 26

TABLE OF AUTHORITIES—continued

	Page(s)
<i>Small v. United States</i> , 544 U.S. 385 (2007).....	19
<i>Swatch SA v. New City, Inc.</i> , 454 F. Supp. 2d 1245 (S.D. Fla. 2006)	27
<i>U2 Home Entm't, Inc. v. Lai Ying Music & Video Trading, Inc.</i> , No. 04-CIV- 1233, 2005 WL 1231645 (S.D.N.Y. May 25, 2005).....	27
<i>UMG Recordings, Inc. v. Norwalk Distribs., Inc.</i> , No. SACV-02-1188, 2003 WL 22722410 (C.D. Cal. Mar. 13, 2003)	27
<i>United Sav. Ass'n of Texas v. Timbers of Inwood Forest Assocs., Ltd.</i> , 484 U.S. 365 (1988).....	10
STATUTES AND LEGISLATIVE AUTHORITIES	
14 U.S.C. § 97(a)(1)	12
15 U.S.C. § 1124	12
17 U.S.C. § 106(1).....	10, 19
17 U.S.C. § 106(3).....	3, 4, 6
17 U.S.C. § 107	3
17 U.S.C. § 109(a).....	passim
17 U.S.C. § 110	3, 10, 11
17 U.S.C. § 601	12
17 U.S.C. § 602(a) (renumbered as § 602(a)(1) in 2008)	1, 4, 6
17 U.S.C. § 602(a)(2)	24
Audio Home Recording Act, 17 U.S.C. §§ 1001, <i>et seq.</i>	11
17 U.S.C. § 1006(a)(1)(A)	11
19 U.S.C. § 1673c(l)(2).....	12
28 U.S.C. § 1254(1).....	1

TABLE OF AUTHORITIES—continued

	Page(s)
42 U.S.C. § 2000e-5(k).....	9
1909 Copyright Act, ch. 320, § 27, 25 Stat. 1075	15
H.R. Rep. No. 94-1476 (1976), <i>reprinted in</i> 1976 U.S.C.C.A.N. 5659.....	15
Staff of House Comm. on the Judiciary, 89th Cong., 1st Sess., Copyright Law Revision Part 5: 1964 Revision Bill with Discussion & Comments 66 (Comm. Print 1965).....	16
MISCELLANEOUS	
Romana Autrey & Francesco Bova, <i>Gray Markets and Multinational Transfer Pricing</i> , Harv. Bus. School Accounting & Management Unit Working Paper No. 09-098 (Feb. 25, 2009)	21
Brief for Respondent at 27, <i>Quality King</i> , 523 U.S. 135 (1998) (No. 96-1470).....	18
Frank V. Cespedes, <i>et al.</i> , <i>Gray Markets: Causes and Cures</i> , 66 HARV. BUS. REV. 75 (July-Aug. 1988).....	21
John C. Cozine, <i>Fade to Black? The Fate of the Gray Market After L'anza Research International, Inc. v. Quality King Distributors, Inc.</i> , 66 CINCINNATI L. REV. 775 (1998)	20
Elie Dugan, <i>United States of America, Home of the Cheap and the Gray: A Comparison of Recent Court Decisions Affecting the U.S. and European Gray Markets</i> , 33 GEO. WASH. INT'L L. REV. 397 (2001).....	21

TABLE OF AUTHORITIES—continued

	Page(s)
William W. Fisher III, <i>When Should We Permit Differential Pricing Of Information?</i> , 55 UCLA L. Rev. 1 (2007)	26
2 PAUL GOLDSTEIN, GOLDSTEIN ON COPYRIGHT § 7.6.1 (3d ed. 2007)	29
Michael J. Meurer, <i>Copyright Law and Price Discrimination</i> , 23 CARDOZO L. REV. 55 (2001)	21, 22
2 NIMMER ON COPYRIGHT (3d ed. 2007).....	17, 26

PETITION FOR A WRIT OF CERTIORARI

OPINIONS BELOW

The opinion of the court of appeals (App., *infra*, 1a-17a) is reported at 541 F.3d 982. The district court's order granting petitioner's motion for summary judgment (App., *infra*, 18a-19a) is unreported.

JURISDICTION

The judgment of the court of appeals was entered on September 3, 2008. App., *infra*, 1a. Rehearing was denied on February 17, 2009. App., *infra*, 20a-21a. This Court's jurisdiction is invoked under 28 U.S.C. § 1254(1).

STATUTORY PROVISIONS INVOLVED

17 U.S.C. § 109(a) provides in pertinent part:

Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.

17 U.S.C. § 602(a) (renumbered as § 602(a)(1) in 2008) provides in pertinent part:

Importation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies or phonorecords under section 106, actionable under section 501.

STATEMENT

This action arises out of the efforts of respondent Omega, S.A. (“Omega”), to prevent petitioner Costco Wholesale Corporation (“Costco”) from reselling watches originally sold by Omega to authorized foreign distributors. Lacking any contractual basis for restricting Costco’s sales, Omega affixed a symbol to its watches that it later registered under the Copyright Act in order to use the Act to control the importation and sale of its watches into the United States. The Ninth Circuit condoned that action, holding that the Copyright Act grants U.S. copyright holders complete control over the resale, redistribution, and importation into the United States of any copyrighted works they manufacture abroad, *even after those works are sold to others*. In doing so, the lower court gutted the venerable “first-sale doctrine,” well summarized by this Court more than one hundred years ago: “[T]he copyright statutes, while protecting the owner of the copyright in his right to multiply and sell his production, do not create the right to impose . . . a limitation at which the [copy] shall be sold at retail by future purchasers, with whom there is no privity of contract.” *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 350 (1908).

The Ninth Circuit’s opinion is inconsistent with both the plain language of the Copyright Act and this Court’s interpretation of it in *Quality King Distribs., Inc. v. L’Anza Research Int’l, Inc.*, 523 U.S. 135 (1998). The Ninth Circuit failed to follow this Court’s unanimous direction to “[r]ead literally” the “unambiguous[]” text of the statute, *id.* at 145, instead choosing to narrow that statute and this Court’s opinion to preserve the Ninth Circuit’s own, irreconcilable precedents. The court of appeals articulated a stark dichotomy between copies manufac-

tured abroad and then imported into the United States (for which the first-sale defense is not available), and copies manufactured in the United States, sold abroad, and subsequently re-imported (for which the first-sale defense is available). That dichotomy has no basis in law or logic, yet carries severe consequences, not intended by Congress, for manufacturers, retailers, and consumers in the United States. This Court should grant certiorari to reiterate that the Court meant what it said in *Quality King*, and to forestall needless damage to the nation's economy.

A. The Copyright Act and *Quality King*

The Copyright Act grants copyright holders certain exclusive rights, among them the right to distribute – or to authorize others to distribute – copies of their work by sale or other transfer of ownership. *See* 17 U.S.C. § 106(3). This distribution right is extended in § 602(a), which provides, in relevant part, that “[i]mportation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies or phonorecords under section 106.” 17 U.S.C. § 602(a) (renumbered as § 602(a)(1) in 2008).

The exclusive rights provided for in § 106, however, are not absolute. Rather, they are subject to a number of important and well-known limitations that are codified in later sections of the Copyright Act, including the rights of fair use, *see* 17 U.S.C. § 107, and educational use, *see* 17 U.S.C. § 110. Also among these limits is the so-called *first-sale doctrine*, which provides that:

Notwithstanding the provisions of section 106(3), the owner of a particular copy or phon-

orecord *lawfully made under this title*, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.

17 U.S.C. § 109(a) (emphasis added). The phrase “lawfully made under this title” is not explicitly defined in the Act.

In *Quality King*, this Court analyzed the interaction of §§ 106(3), 602(a), and 109(a). Specifically, the Court addressed whether the first-sale doctrine limits the importation right provided for in § 602(a). Following the text of the statute, the Court held that “since § 602(a) merely provides that unauthorized importation is an infringement of an exclusive right ‘under section 106,’ and since that limited right does not encompass resales by lawful owners, the literal text of § 602(a) is simply inapplicable to both domestic and foreign owners” of lawfully made products that import and resell them in the United States. *Quality King*, 523 U.S. at 145. Once a lawful first sale has occurred, even unauthorized resales do not infringe the copyright owner’s exclusive right to distribute. *Id.* at 143. “The whole point of the first sale doctrine is that once the copyright owner places a copyrighted item in the stream of commerce by selling it, he has exhausted his exclusive statutory right to control its distribution.” *Id.* at 152.

B. Factual Background

Omega manufactures watches in Switzerland and sells them globally through a network of authorized distributors and retailers. *See* Court of Appeals Supplemental Excerpts of Record (“CASER”) 61, 239-257. Costco is a membership warehouse club well

known for selling genuine brand-name merchandise to its members at prices lower than its competitors.

For many years, Costco sold Omega watches that it had legally obtained through third parties who imported them into the United States.¹ Among the Omega watches sold by Costco was a model known as the “Seamaster.” Costco sold the Seamaster for \$1,299, more than one-third less than Omega’s suggested retail price of \$1,999. CASER 61, 79-82. Costco also guaranteed its sales with a lifetime return policy that far surpassed Omega’s own three-year limited warranty. *Id.* at 196, 258-260. Costco’s superior price and customer service threatened other Omega retailers, who complained about the competition. *Id.* at 33-35.

Starting in 2003, for the express purpose of invoking the Copyright Act to restrict the resale of its products, Omega engraved a small emblem, less than one-half centimeter in diameter, referred to as the “Omega Globe Design,” on the back of its Seamaster watch. CASER 238. That design was registered with the United States Copyright Office. *Id.* at 60-61.

In 2004, Costco purchased 117 Seamaster watches from an American supplier. CASER 61. Discovery revealed that some number of those watches were originally sold by Omega to authorized foreign distributors in Egypt and Paraguay, who subsequently resold them into the regular stream of commerce. *Id.* at 175. Costco bought the watches

¹ Goods legally produced and purchased abroad but imported without the permission of the copyright holder are sometimes referred to as secondary-market goods or gray-market goods, though this Court has discouraged the use of the latter term to describe the issues raised here. *See Quality King*, 523 U.S. at 153.

only after they had been imported into the United States. *Id.* at 54-57, 61.

C. Proceedings Below

After Costco's sale of 43 Seasmaster watches in 2004, Omega filed suit alleging that Costco's acquisition and sale of the watches constituted copyright infringement under 17 U.S.C. §§ 106(3) and 602(a). Court of Appeals Excerpts of Record ("CAER") 132. Omega moved for summary judgment. *Id.* at 148. Costco filed a cross-motion on the basis of 17 U.S.C. § 109(a), arguing that, under the first-sale doctrine, Omega's initial foreign sale of the watches precluded claims of infringing distribution and importation in connection with Costco's subsequent sales. The district court ruled in favor of Costco without explanation. App., *infra*, 18a-19a.

The Ninth Circuit reversed, citing its own precedent in *BMG Music v. Perez*, 952 F.2d 318 (9th Cir. 1991). The panel in *BMG Music* had held that the phrase "lawfully made under this title" in § 109(a) "grant[s] first sale protection only to copies legally made and sold in the United States." 952 F.2d at 319 (following *CBS v. Scorpio Music Distribs.*, 569 F. Supp. 47 (E.D. Pa. 1983), *aff'd without op.*, 738 F.2d 424 (3d Cir. 1984)). The court gave two rationales for that interpretation. First, "[c]onstruing [§] 109(a) as superseding the prohibition on importation set forth in . . . § 602 would render § 602 virtually meaningless." *Id.* (quoting *Scorpio*, 569 F. Supp. at 49). Second, recognizing a first-sale defense as to goods manufactured abroad would impermissibly extend the Copyright Act extraterritorially. *See id.* (citing *Scorpio*, 569 F. Supp. at 49).

The Ninth Circuit in the present case viewed its task as determining whether this Court's decision in

Quality King had undermined *BMG Music*. The Ninth Circuit concluded that this Court’s decision was distinguishable on two grounds. First, “the facts [of *Quality King*] involved only domestically manufactured copies.” App., *infra*, 10a. Justice Ginsburg, in a one-paragraph concurrence, had opined that, because the copies at issue in *Quality King* had originated in the United States, the Court’s unanimous opinion did not “resolve cases in which the allegedly infringing imports were manufactured abroad.” *Quality King*, 523 U.S. at 154 (Ginsburg, J., concurring). Though no other Justice joined her concurrence, the Ninth Circuit treated it as controlling because “[t]he majority opinion did not dispute this interpretation.” App., *infra*, 15a. Second, the court of appeals suggested that this Court never “discussed the scope of § 109(a) or defined what ‘lawfully made under this title’ means.” App., *infra*, 11a. Those two considerations, the lower court concluded, meant that *Quality King* was not “clearly irreconcilable” with the rule it enunciated in *BMG Music*, and that the rule could be applied to bar Costco’s reliance on § 109(a). App., *infra*, 11a.

REASONS FOR GRANTING THE PETITION

The decision of the court of appeals conflicts with the plain language of 17 U.S.C. § 109(a), with its legislative history, and with this Court’s straightforward interpretation of the statutory text. The phrase “lawfully made under this title” is used throughout the Copyright Act, and makes perfect sense when read to mean nothing more than *according to, or as defined by, this title*. In contrast, the Ninth Circuit’s holding that the phrase means *made in the United States* makes little sense at all and introduces into the statute numerous absurdities that the lower court did not even acknowledge, let alone

explain. Moreover, the Ninth Circuit's definition lacks any basis in the legislative history of the statute and is based solely on circuit precedent that was undermined by this Court's unanimous decision in *Quality King Distribs., Inc. v. L'Anza Research Int'l, Inc.*, 523 U.S. 135 (1998), which unambiguously held that the first-sale doctrine applies to imported copies, without concern for the place of manufacturing.

Though the distinction between goods made at home and those made abroad has no basis in the Copyright Act, as long as such a distinction exists in the case law it will have severe consequences for the U.S. economy. Manufacturers who sell globally will prefer to manufacture their goods abroad because of the increased control they will gain over subsequent use of their products. Conversely, retailers will be hesitant to sell such products for fear of unintended liability for infringement. Moreover, by absolving goods manufactured abroad from the first-sale doctrine, the Ninth Circuit's decision gives rise to a number of absurd outcomes unintended by Congress, including copyright infringement liability for libraries that lend foreign books or movies.

Without review by this Court, those erroneous outcomes are very unlikely to be corrected. Both the Ninth Circuit and the lower courts have for many years now completely overlooked the statutory text at issue, even after this Court's clear and unanimous instruction to "[r]ead literally" the "unambiguous[]" text of § 109(a). *Quality King*, 523 U.S. at 145. Some, like the Ninth Circuit, have become enamored of policy disputes. Others have announced a result with no analysis or treated a lone concurrence as the law of the land. None has followed *Quality King*. The time is therefore ripe for this Court again to re-focus analysis on the Copyright Act itself, which re-

quires application of the first-sale doctrine to goods made and sold abroad.

I. THE NINTH CIRCUIT’S OPINION IS INCONSISTENT WITH THE PLAIN LANGUAGE OF THE COPYRIGHT ACT AND WITH THIS COURT’S INTERPRETATION OF THAT LANGUAGE IN *QUALITYKING*

The first-sale doctrine, codified in 17 U.S.C. § 109(a), limits distribution and importation liability for owners of copies “lawfully made under this title.” The scope of the doctrine – and the validity of the lower court’s holding – thus turns on the interpretation of those five words.

A. Though not explicitly defined in the Copyright Act, the phrase “lawfully made under this title” easily can be understood in light of “the normal meaning of the language chosen by Congress.” See *Regents of Univ. of Cal. v. Pub. Emp. Rel. Bd.*, 485 U.S. 589, 595 (1988). In its normal usage, the phrase would seem to mean nothing more than *made pursuant to, or in compliance with, the Copyright Act.*² Here, because Omega is the U.S. copyright holder, any copies that it makes are necessarily in compli-

² A virtually identical definition was employed by the Court in *New York Gaslight Club, Inc. v. Carey*, 447 U.S. 54 (1980), for example. In evaluating whether a state administrative claim required under 42 U.S.C. § 2000e-5(k) constituted a proceeding “under this title,” the Court simply looked at various aspects of Title 42, among them “the language and history of the statute” itself. *Id.* at 61. The mode of analysis used by the Court was entirely uncontroversial; though the Court’s holding was not unanimous, there was not even the mere suggestion that the phrase “under this title” meant anything other than *according to Title 42*.

ance with 17 U.S.C. § 106(1), which provides the U.S. copyright holder with an exclusive right to make or authorize copies. As a result, any copies made by Omega are “lawfully made under this title” and, therefore, subject to the first-sale doctrine.

This Court has long recognized that “[a] provision that may seem ambiguous in isolation is often clarified by the remainder of the statutory scheme because the same terminology is used elsewhere in a context that makes its meaning clear, or because only one of the permissible meanings produces a substantive effect that is compatible with the rest of the law.” *United Sav. Ass’n of Texas v. Timbers of Inwood Forest Assocs., Ltd.*, 484 U.S. 365, 371 (1988) (internal citations omitted). Here, the phrase “lawfully made under this title” is used two other times in Title 17, and in both of those instances the straightforward, literal definition advanced by Costco makes perfect sense. In contrast, the Ninth Circuit’s holding that the phrase can only mean “made and sold in the United States,” App., *infra*, 8a, makes little sense. In fact, that definition introduces considerable absurdity that the Ninth Circuit failed even to acknowledge, let alone explain.

In 17 U.S.C. § 110, for example, the Copyright Act exempts from liability copies that are “lawfully made under this title” for educational use. Under Costco’s reading of that phrase, § 110 would permit teachers to use lawful copies of books, recordings, and other media, while sensibly limiting their use of piratical copies, which are obviously not “lawfully made.” Were the Ninth Circuit’s contrary understanding correct, however, teachers would be liable for copyright infringement if they simply chose to expose their students to non-piratical foreign-made re-

cordings of classical music because the safe harbor created by 17 U.S.C. § 110 would be inapplicable.

Even more nonsensical consequences result from applying the lower’s courts definition to requirements introduced into Title 17 by the Audio Home Recording Act (“AHRA”), 17 U.S.C. §§ 1001 *et seq.*³ Section 1004(b) of the AHRA provides for a royalty payment “for each digital audio recording medium imported into and distributed in the United States, or manufactured and distributed in the United States.” Section 1006(a) goes on to provide that those royalties shall be distributed to those whose musical works or sound recordings have been “embodied in a digital musical recording or an analog musical recording *lawfully made under this title* that has been distributed.” 17 U.S.C. § 1006(a)(1)(A) (emphasis added).

Costco’s reading of the operative phrase to mean simply *according to the Copyright Act* properly enables § 1004 and § 1006 to be read in harmony. If, however, the phrase “lawfully made under this title” referred only to copies manufactured in the United States, no royalty payments under § 1006 would be due on digital audio recording media manufactured abroad and imported into the United States, in direct contravention of § 1004(b), which explicitly provides for such payments. “It is well established that when the statute’s language is plain, the sole function of the courts – at least where the disposition required by the text is not absurd – is to enforce it according to its terms.” *Lamie v. U.S. Trustee*, 540 U.S. 526,

³ The AHRA regulates the importation and distribution of audio recording devices and media and requires royalty payments to be paid to copyright owners by manufacturers, importers, or distributors of such products.

534 (2004) (internal quotations and citation omitted). The lower court’s interpretation turns this canon on its head by simultaneously departing from the text and *creating* absurd results.

The lower court’s definition also fails to recognize that when Congress intends to call attention to the location of manufacturing – and, as in § 1004(b) of the AHRA, it often does – it does so explicitly and in plain English.⁴ A prime example is the Copyright Act’s now-expired “manufacturing requirement,” where Congress used the phrases “under this title” and “manufactured in the United States” in the very same sentence. See 17 U.S.C. § 601 (“the importation into or public distribution in the United States of copies of a work consisting preponderantly of nondramatic literary material that is in the English language and is protected *under this title* is prohibited unless the portions consisting of such material have been *manufactured in the United States or Canada*”) (emphasis added). The use of both phrases in the same sentence demonstrates that they are not equivalent, and that, if Congress meant to limit § 109 to goods manufactured in the United States, it would have done so explicitly. See *Nken v. Holder*, 129 S. Ct. 1749, ___ (2009) (slip op. at 11) (“[W]here Congress includes particular language in one section of a statute but omits it in another section of the

⁴ See, e.g., 15 U.S.C. § 1124 (banning the importation of goods that, inter alia, “bear a name or mark calculated to induce the public to believe that the article is manufactured in the United States”); 19 U.S.C. § 1673c(1)(2) (providing for penalties in certain situations where a trading partner “no longer prevents the suppression or undercutting of domestic prices of merchandise manufactured in the United States”); 14 U.S.C. § 97(a)(1) (“the Coast Guard may not procure buoy chain that is not manufactured in the United States”).

same Act, it is generally presumed that Congress acts intentionally and purposely in the disparate inclusion or exclusion.”) (internal quotation marks omitted); *accord Dean v. United States*, 129 S. Ct. 1849, ___ (2009) (slip op. at 4). *See also Sebastian Int’l Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093, 1098 n.1 (3d Cir. 1988) (addressing the phrase “lawfully made under this title” in § 109(a) and noting that “[w]hen Congress considered the place of manufacture to be important, as it did in the manufacturing requirement of section 601(a), the statutory language clearly expresses that concern”).

B. The Court’s holding in *Quality King* – that the first-sale doctrine in § 109(a) limits the importation right in § 602(a) – did not require enunciation of an explicit definition of the phrase “lawfully made under this title.” But the principle that the phrase encompasses any copies made by the U.S. copyright holder, *regardless of location*, follows from the Court’s treatment of the statutory text. Recognizing that the first-sale doctrine “does not apply to ‘any copy,’” *Quality King*, 523 U.S. at 142 n.9, the Court identified two types of copies that would *not* be considered “lawfully made under this title.” The first was “piratical copies, of course, because such copies were not ‘lawfully made.’” *Quality King*, 523 U.S. at 146 n.17. The second was “copies that were ‘lawfully made’ not under the United States Copyright Act, but instead, under the law of some other country.” *Id.* at 147. To clarify the scope of this second category, the Court provided a hypothetical example:

If the author of [a] work gave the exclusive United States distribution rights – enforceable under the Act – to the publisher of [a] United States edition and the exclusive British distribution rights to the publisher of [a] British edition

. . . presumably only those made by the publisher of the United States edition would be “lawfully made under this title” within the meaning of § 109(a). The first-sale doctrine would not provide the publisher of the British edition who decided to sell in the American market with a defense to an action under § 602(a) (or, for that matter, to an action under § 106(3), if there was a distribution of the copies).

Quality King, 541 U.S. at 148. The court of appeals read “this illustration [to] suggest[] that ‘lawfully made under this title’ refers *exclusively* to copies of U.S.-copyrighted works that are made domestically.” App., *infra*, 15a (emphasis added). But the illustration does no such thing. Indeed, it does not refer to a place of manufacture at all, only to “rights” granted. This treatment conforms perfectly with a definition of “lawfully made under this title” that turns on the *rights created or granted by Title 17*. Obviously, if a copyright owner gives exclusive American publishing rights to Person A, and exclusive British publishing rights to Person B, A’s books are “lawfully made under this title” (*i.e.*, the Copyright Act) even if they are manufactured in Mexico. Conversely, B’s books are not lawfully made under the Copyright Act, *even if they are made in the United States*, because B did not receive U.S. rights from the copyright owner.

C. The legislative history further confirms that “lawfully made under this title” simply means *according to the Copyright Act*, and not *made in the United States*. For example, the legislative history notes that copies “lawfully made under this title” include some types that were “not necessarily [made] with the copyright owner’s authorization,” among

them, copies “legally made under the compulsory licensing provisions of section 115.”⁵ H.R. Rep. No. 94-1476, at 79 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5693. That comment makes sense if the phrase “lawfully made under this title” refers simply to the surrounding provisions of Title 17; for purposes of the first-sale doctrine, there is no logical reason to treat copies authorized by a copyright owner differently than those made under a compulsory license. Yet that is precisely the result that would follow from the lower court’s interpretation of the phrase “lawfully made under this title”; under that interpretation, a rerecording of a U.S. copyrighted song made abroad might not be subject to the first-sale rule, *even if the artist making the rerecording paid for a compulsory license and abided by the other requirements of § 115*. The Ninth Circuit’s interpretation therefore conflicts not only with logic, but with the legislative history of statute as well.

Analysis of the transition to § 109 from its predecessor also undercuts the Ninth Circuit’s holding. Section 109 replaced § 27 of the 1909 Copyright Act, which stated: “[N]othing in this title shall be deemed to forbid, prevent, prevent, or restrict the transfer of any copy of a copyrighted work *the possession of which has been lawfully obtained*.” Act of Mar. 4, 1909, ch. 320, § 27, 25 Stat. 1075, 1084 (1909) (amended 1976) (emphasis added). This Court characterized the two acts as having “comparable limitation[s],” *Quality King*, 523 U.S. at 142, and it is sen-

⁵ Section 115 provides that, once a copyright holder records a composition and distributes it to the public, others are also entitled to record and distribute copies of that composition, subject to the payment of statutory royalties and other minimal requirements.

sible to conclude that “lawfully made” in the 1976 Act drew its meaning from “lawfully obtained” in the 1909 Act. *Cf. Keene Corp. v. United States*, 508 U.S. 200, 210 (1993) (predecessor provisions can “shed some light” on current ones); *ICC v. J-T Transp. Co.*, 368 U.S. 81, 127-128 (1961) (Frankfurter, J., dissenting) (“we are guided primarily by an investigation of the prior law as it sheds light on” congressional intent). The words “lawfully obtained” in § 27 of the 1909 Copyright Act did not refer to the locality of manufacturing or first sale, and there is no evidence to suggest that changes made by the 1976 Act were meant to introduce such a factor.⁶

D. The decision below does more than merely misinterpret the statutory text and its history, however. It also blatantly ignores clear principles articulated clearly and unanimously by this Court in *Quality King*. In even the most narrow recitation of the question presented in *Quality King*, for example, this Court indicated its intention to articulate a principle of law, not just a determination on the facts: “More

⁶ See Staff of House Comm. on the Judiciary, 89th Cong., 1st Sess., Copyright Law Revision Part 5: 1964 Revision Bill with Discussion & Comments 66 (Comm. Print 1965) (Barbara Ringer, member of the Copyright Office’s General Revision Steering Committee, stating: “The basic purpose of [§ 109(a)] is to make clear that full ownership of a lawfully-made copy authorizes its owner to dispose of it freely, and that this privilege does not extend to copies obtained otherwise than by sale or other lawful disposition. In other words, if you obtain a copy by loan or by rental, you are not free to dispose of it freely or to use it in any way you see fit.”). The Court in *Quality King* acknowledged this rationale for the statute’s amendment when it observed that “the first sale doctrine would not provide a defense to a § 602(a) action against any nonowner such as a bailee, a licensee, a consignee, or one whose possession of the copy was unlawful.” 523 U.S. at 146-147.

narrowly, the question is whether the ‘first sale’ doctrine endorsed in § 109(a) is applicable to imported copies.” *Quality King*, 523 U.S. at 138. *See also* 2 NIMMER ON COPYRIGHT § 8.12[B][6][c], at 8-176 (3d ed. 2007) (“[T]he entire way that the Court encapsulated the inquiry before it indicates that its ruling should be given a broad sweep, instead of being confined to the operative facts at play in that particular case.”). That question did not distinguish between the importation of copies manufactured abroad and the “re-importation” of goods originally manufactured in the United States.

More to the point, the primary rationale articulated in *BMG Music*, that recognizing § 109(a) in importation cases would render § 602(a) meaningless, was squarely rejected by the Court as *Quality King*’s core holding because of “several flaws in th[e] argument.” 523 U.S. at 146. In particular, the Court emphasized that the argument rested on a faulty “assumption that the coverage of [§ 602(a)] is coextensive with the coverage of § 109(a).” *Id.* at 148. A reading of the statute reveals that the assumption is false: § 602(a) “is, in fact, broader because it encompasses copies that are not subject to the first sale doctrine.” *Id.* In particular, as noted earlier, the first-sale doctrine applies neither to piratical copies, *id.* at 146 n.17, nor to copies lawfully made under foreign law, *id.* at 147, because in both cases such copies are not “lawfully made under this title.” Thus, the Court concluded, although there may be considerable overlap between the first-sale doctrine and § 602(a), “the former does not subsume the latter; those provisions retain significant independent meaning.” *Id.* at 148-149.

Nor can the second rationale relied on by the court of appeals, that recognizing a first-sale defense

as to goods manufactured abroad “would amount to an extraterritorial application of the Copyright Act,” be reconciled with the express reasoning of *Quality King*. The argument was noted, without being addressed or otherwise validated, in Justice Ginsburg’s *Quality King* concurrence. 523 U.S. at 154. And it has been the basis for a number of recent district court opinions, many of which treat Justice Ginsburg’s concurrence as though it were controlling without any consideration of the issue.⁷ The argument, however, misinterprets or flatly ignores several aspects of *Quality King*.

First, the Court in *Quality King* addressed – and squarely rejected – an argument virtually identical to that adopted by the Ninth Circuit. Respondent in *Quality King* had argued that the first-sale doctrine should not apply when that first sale is made abroad. 523 U.S. at 145 n.14. Its rationale was that “[a] distribution of copyrighted goods outside the United States is not an exercise of the Section 106(3) right, but rather an exercise of rights conferred by foreign copyright law,” and therefore, “[b]ecause a distribution of copyrighted works outside the United States is not an exercise of the Section 106(3) United States distribution right, the Section 106(3) right and Section 602(a) right cannot be extinguished by [a] distribution outside the United States.” Brief for Respondent at 27, *Quality King*, 523 U.S. 135 (1998) (No. 96-1470). This Court flatly rejected that argument, holding that a defendant’s invocation of the first-sale doctrine “does *not* require the extraterritorial application of the Act any more than § 602(a)’s

⁷ See *infra* notes 11-13 and surrounding text.

‘acquired abroad’ language does.” 523 U.S. at 145 n.14 (emphasis added).

Characteristic of its general disregard of *Quality King*, the Ninth Circuit attempted to distinguish it from this action by concluding that in the case addressed by this Court “the statute merely acknowledges the occurrence of a foreign event as a relevant fact,” while in Costco’s case “application [of the statute] would go much further.” App., *infra*, 13a. According to the Ninth Circuit, applying the first-sale doctrine “would mean that a copyright owner’s foreign manufacturing constitutes lawful reproduction under 17 U.S.C. § 106(1) even though that statute does not clearly provide for extraterritorial application.” *Id.* at 13a. But that purported distinction makes no sense: Permitting use of the first-sale doctrine here requires nothing more than a factual determination about whether the manufacturer abroad is the U.S. copyright holder, just as permitting use of the first-sale doctrine in *Quality King* required nothing more than a factual determination about whether the distributor abroad was the U.S. copyright holder.

Second, the court of appeals, following both *Scorpio* and *BMG Music*, misconceived the purpose and application of the rule against extraterritoriality. That rule is meant “to protect against unintended clashes between our laws and those of other nations which could result in international discord,” *EEOC v. Arab. Am. Oil Co.*, 499 U.S. 244, 248 (1991), by “restricting federal statutes from reaching *conduct* beyond U.S. borders,” *Small v. United States*, 544 U.S. 385, 400 (2007) (Thomas, J., dissenting) (emphasis added), unless Congress clearly states otherwise. As the U.S. District Court for the Northern District of California recently emphasized when confronted

with a similar argument in the context of the foreign sale of a product with a U.S. patent:

[T]he concept of “extraterritorial effect” refers to *imposing liability* under United States law for conduct occurring outside the United States. Holding that exhaustion is triggered by the authorized foreign sale of a patented product does not impose liability of this sort, and thus does not amount to giving extraterritorial effect to the patent law.

LG Elecs., Inc. v. Hitachi, Ltd., No. C 07-6511, 2009 WL 667232, at *11 (N.D. Cal. Mar. 13, 2009) (emphasis added and internal citations omitted). The issue here is not how U.S. copyright law is applied in other countries but whether it bans a particular importation into *this* country; there is no applicable rule regulating conduct abroad here. Accordingly, barring use of the first-sale doctrine as an affirmative defense in an action brought by a *U.S. copyright holder* alleging infringement of *U.S. copyright* simply turns the rule against extraterritoriality on its head, creating further need for this Court’s review.

II. THE ISSUE IS OF GREAT IMPORTANCE

The decision below should be examined by this Court because of the significant impact it has on an important component of the U.S. economy. “Because of its relatively open markets and historically strong currency, the United States has developed a large gray market economy.” John C. Cozine, *Fade to Black? The Fate of the Gray Market After L’anza Research International, Inc. v. Quality King Distributors, Inc.*, 66 CINCINNATI L. REV. 775, 778 (1998). Indeed, the size of the secondary market for information technology alone is currently estimated to be

more than \$40 billion annually. See Romana Autrey & Francesco Bova, *Gray Markets and Multinational Transfer Pricing*, Harv. Bus. School Accounting & Management Unit Working Paper No. 09-098, at 1 (Feb. 25, 2009). This is a dramatic increase over just twenty years ago. See Frank V. Cespedes, *et al.*, *Gray Markets: Causes and Cures*, 66 HARV. BUS. REV. 75 (July-Aug. 1988) (estimating the entire U.S. secondary market to be seven to ten billion dollars annually).

The Ninth Circuit's opinion gives copyright holders an unfettered right to eliminate these secondary markets, and the American jobs and tax revenue that flow from them. By granting greater protections to goods made abroad than to those made at home, the Ninth Circuit's opinion creates perverse incentives, not intended by Congress, for United States copyright owners to produce all copies of their copyrighted works outside the United States.⁸ See, e.g., Michael J. Meurer, *Copyright Law and Price Discrimination*, 23 CARDOZO L. REV. 55, 142 n.380 (2001) ("A policy that allows exclusion of gray market goods that are manufactured abroad provides an inefficient incentive to shift domestic production abroad."); Elie Dugan, *United States of America, Home of the Cheap and the Gray: A Comparison of Recent Court Deci-*

⁸ In the analogous area of patent exhaustion, one court recently noted that "[d]rawing such a distinction between authorized domestic sales and authorized foreign sales would negate the Supreme Court's stated intent in *Quanta [Computer, Inc. v. LG Elecs., Inc.]*, 128 S. Ct. 2109 (2008) to eliminate the possibility of a patent holder doing an 'end-run' around the exhaustion doctrine by authorizing a sale, thereby reaping the benefit of its patent, then suing a downstream purchaser for patent infringement." *LG Elecs.*, 2009 WL 667232, at *10. Analogous concerns are present here.

sions Affecting the U.S. and European Gray Markets, 33 GEO. WASH. INT'L L. REV. 397, 406 (2001) (characterizing the phenomenon as “loophole” that “does not bode well for employment in the United States” and that “can hardly be seen as positive”). Not only would such a result lack any legal basis, but it lacks any policy rationale as well. See Meurer, *supra*, 23 CARDOZO L. REV. at 142 n.379 (noting that it is “hard to find any policy basis for treating the two cases [*i.e.*, manufactured at home or abroad] differently”). This problem is exacerbated because it is easy for copyright holders to apply a copyrighted symbol, label, or package to almost any good offered for sale in the United States.

The Ninth Circuit’s decision not only distorts incentives for manufacturers, but does so for downstream retailers as well. Neither the mass-market chain that imports billions of dollars of goods for resale each year, nor the small local shop that purchases its inventory from middleman exporters and distributors, can always know the provenance of lawfully made goods first sold abroad and imported for sale in the United States. Where (as here) the copyright owner places no copyright notice on the goods, retailers have no reasonable way to ascertain whether anything about the goods is protected by copyright. This is particularly true in cases in which the copyrighted work is at best ancillary to the goods consumers purchase. If copyright owners had the right to prevent importation of lawfully made goods, the retail industry would have less confidence to sell non-piratical goods acquired from an independent exporter or importer. See *Disenos Artisticos E Industriales S.A. v. Costco Wholesale Corp.*, 97 F.3d 377, 380 (9th Cir. 1996) (noting that, if the first-sale doctrine were not applicable to imported goods then

“every little gift shop in America would be subject to copyright penalties for genuine goods purchased in good faith from American distributors, where unbeknownst to the gift shop proprietor, the copyright owner had attempted to arrange some different means of distribution several transactions back”).

Despite *Quality King*, given the practical difficulties in assuring the provenance of imported goods, retailers would be loath even to re-import goods produced in the United States, forgoing the opportunity to purchase and sell those goods at all rather than risk the expense of litigation, potential injunctive relief, seizure and loss of inventory, and/or statutory damages. Ensuring that the first-sale doctrine is applied to lawfully made goods, regardless of where they are manufactured, thus secures the rights of everyone along the chain of commerce – the first foreign purchaser, the exporter, the importer, the domestic distributor, and/or the retailer – to sell at retail in the United States lawfully made goods legally acquired abroad.

The damage caused by the decision below is not limited to industry, however. It causes substantial harm and confusion for everyday consumers as well. The lower court’s decision subjugates retailer competition to copyright owner price controls, resulting in fewer goods offered at retail, in fewer retail outlets, and at higher prices. Moreover, the decision below mandates a number of nonsensical outcomes, including the following, non-exhaustive list:

- Imported copies of copyrighted material – be it a British version of a Harry Potter book imported by an individual consumer under the

§602(a)(2) “suitcase exemption,”⁹ a Picasso fine art print purchased from a foreign art dealer, or a foreign-made classical compact disc – cannot lawfully be resold, loaned, or even given away by the purchaser without committing copyright infringement.

- Libraries are unable to lend foreign-language texts made abroad.
- Movie rental businesses such as Netflix and Blockbuster and used-DVD and -CD resale shops, whose existence depends on the first-sale doctrine, can be shut down merely by shifting disc duplication to Mexico or Canada.
- It is impossible to rent or resell a foreign-produced automobile whose on-board computer systems are loaded with control software covered by a United States copyright registration.

This Court’s review is necessary because no copyright or public policy would be served by the potential losses of jobs and tax revenue, or the manifest disadvantages to consumer and commercial interests, that flow from the Ninth Circuit’s opinion.

⁹ Congress exempted from infringement under 17 U.S.C. § 602(a)(2) the “importation, for the private use of the importer and not for distribution, by any person with respect to no more than one copy or phonorecord of any one work at any one time, or by any person arriving from outside the United States with respect to copies or phonorecords forming part of such person’s personal baggage.”

III. THE ISSUE IS READY FOR THIS COURT'S REVIEW

A. Though no other court of appeals has addressed the precise issue raised here, the Ninth Circuit's opinion is in conflict with the reasoning of the Third Circuit in *Sebastian Int'l, Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093 (3d Cir. 1988).¹⁰ In *Sebastian*, the Third Circuit "confess[ed] some uneasiness with [a] construction of 'lawfully made'" that turned on the place of manufacturing "because it does not fit comfortably with the scheme of the Copyright Act." *Id.* at 1098 n.1. "When Congress considered the place of manufacturing to be important, as it did in the manufacturing requirement of section 601(a), the statutory language clearly expresses that concern." *Id.* "Furthermore," the Court noted, "it is trademark law that emphasis the source of origin." *Id.* "[C]opyright law focuses instead on originality of authorship [and] [t]he Supreme Court has cautioned against applying doctrine formulated in one area to the other." *Id.* See also *Red Baron-Franklin Park, Inc. v. Taito Corp.*, 1989 Copyright L. Dec. (CCH) ¶ 26,352 (E.D. Va. 1988) ("This court finds it difficult to accept that Congress would have given foreign corporations greater protection under the copyright laws than it has provided to domestic copyright holders."), *rev'd on other grounds*, 883 F.2d 275 (4th Cir. 1989), *cert. denied*, 493 U.S. 1058 (1990) .

Though the facts of *Sebastian* involved a "round-trip" importation, and that court "specifically d[id]

¹⁰ It was a conflict between *Sebastian* and the Ninth Circuit's decision in *L'Anza Research Int'l, Inc. v. Quality King Distribs., Inc.*, 98 F.3d 1109 (9th Cir. 1996), that gave rise to this Court's *Quality King* decision. See *Quality King*, 523 U.S. at 140.

not pass upon” the phrase “lawfully made under this title,” 847 F.2d at 1098, the prevailing view is that “[t]he Third Circuit upheld the first sale doctrine using language that could also apply to sale and manufacture abroad of copyrighted goods and their subsequent importation into the United States. In *dictum*, if not in holding, *Sebastian* therefore calls into question” the “continued vitality” of the interpretation relied on by the court of appeals here. 2 NIMMER § 8.12[B][6][a], at 8-172 n.111.24.

B. Though this Court in *Quality King* adopted the Third Circuit’s reasoning in *Sebastian*, the views of commentators and the erroneous and unreasoned departures from *Quality King*’s reasoning in the lower courts suggest that this Court needs to do more to reiterate its prior reasoning and clarify the interaction between § 109(a) and § 602(a). In particular, there is considerable doubt that there is any continuing validity to the extraterritoriality concerns raised in *Scorpio* and cited in *BMG Music*. Indeed, because this “Court [did] not even cite to *Scorpio* or most other cases in the field, [and because] the opinion does [not] even grapple with the basic issues that *Scorpio* poses,” one prominent treatise has commented that “a unanimous Supreme Court opinion has now addressed the copyright gray market, without leaving any clear guidance as to what the status is of pedestrian gray market goods manufactured abroad and sought to be imported into the United States.” 2 NIMMER § 8.12[B][6][c], at 8-178.3 n.111.83. *See also* William W. Fisher III, *When Should We Permit Differential Pricing Of Information?*, 55 UCLA L. REV. 1, 38 (2007) (noting that whether the first-sale rule applies to products manufactured and sold abroad is “subject to some uncertainty or dispute . . . [and that the governing rule] has not yet been resolved”).

This perceived lack of clarity might be tolerable, were it the case that lower courts were rigorously examining § 109(a) and vigorously debating its meaning. But that is simply not the case. Despite this Court’s instruction to “[r]ead literally” the “unambiguous[]” text of the statute, *Quality King*, 523 U.S. at 145, most lower courts have been more concerned with parsing this and other courts’ opinions than with parsing the words of the operative statutory text.¹¹ A number of lower courts have concluded that *Quality King* itself held that copies made abroad are *not* subject to the first-sale doctrine;¹² even Jus-

¹¹ See, e.g., *Microsoft Corp. v. Cietdirect.com LLC*, No. 08-60668-CIV, 2008 WL 3162535 at *4 (S.D. Fla. Aug. 5, 2008) (following *Scorpio* because, “[a]s Justice Ginsburg recognized in her concurrence, the *Quality King* Court did not ‘resolve cases in which the allegedly infringing imports were manufactured abroad’”); *UMG Recordings, Inc. v. Norwalk Distribs., Inc.*, No. SACV-02-1188, 2003 WL 22722410, at *3-*4 (C.D. Cal. Mar. 13, 2003) (parsing the language of *Quality King* to determine its scope but nowhere even mentioning the operative statutory language); *Lingo Corp. v. Topix, Inc.*, No. 01-CIV-2863, 2003 WL 223454, at *4 (S.D.N.Y. Jan. 31, 2003) (citing Ninth Circuit precedent for the proposition that the first-sale doctrine does not apply to goods made abroad, with no discussion of the Copyright Act itself).

¹² See, e.g., *Pearson Educ., Inc. v. Liao*, No. 07-CIV-2423, 2008 WL 2073491, at *3 (S.D.N.Y. May 13, 2008) (“because a first sale defense only applies to the sale of copies that are ‘lawfully made under this title,’ the resale in the United States of copies manufactured outside the United States is not protected under the terms of the statute”); *Swatch SA v. New City, Inc.*, 454 F. Supp. 2d 1245, 1254 (S.D. Fla. 2006) (asserting that in *Quality King* this court “expressly recognized” that the first-sale doctrine does not apply to goods manufactured abroad); *U2 Home Entm’t, Inc. v. Lai Ying Music & Video Trading, Inc.*, No. 04-CIV-1233, 2005 WL 1231645, at *4 (S.D.N.Y. May 25, 2005) (citing *Quality King* for the proposition that “the importation of

tice Ginsburg did not go that far, believing the issue simply to be unresolved. The decision below has already exacerbated this problem, as recent court decisions have begun to substitute a citation to *Omega* for any reasoned exploration of the statute at all.¹³ Review by this Court is therefore necessary to return lower courts to the task of interpreting the Copyright Act, as opposed to the words of prior decisions.

C. Nor is there any reasonable expectation that the Ninth Circuit will limit the reach of its holding in future cases without action by this Court. Indeed, this case demonstrates quite the opposite. *BMG Music*, the case on which the opinion below chiefly relies, was the subject of “widespread criticism” from the day it was decided. *Parfums Givenchy v. Drug Emporium*, 38 F.3d 477, 482 n.8 (9th Cir. 1994). Another panel of the Ninth Circuit went so far as to express concern that, applied literally, *BMG Music* would lead to precisely the “absurd and unintended results” just described, including giving “foreign manufactured goods . . . greater copyright protection than goods manufactured in the United States.” *Id.* “[S]uch a result,” the court concluded, “would be un-

[Footnote continued from previous page]

copies into the United States of a work manufactured in a foreign country can form the basis for a copyright infringement claim by an exclusive licensed U.S. distributor without regard to the first sale doctrine”).

¹³ See, e.g., *Microsoft Corp. v. Big Boy Distrib. LLC*, 589 F. Supp. 2d 1308, 1317 (S.D. Fla. 2008) (citing *Omega* and concluding that “the first sale doctrine protects only resales of works lawfully made ‘under this title,’ a phrase which is generally interpreted to mean works legally made *in the United States*”) (emphasis in original); *Microsoft Corp. v. Intrax Group, Inc.*, No. C-07-1840, 2008 WL 4500703, at *3 (N.D. Cal. Oct. 6, 2008) (citing *Omega* without any discussion of the issue).

tenable, and . . . nothing in the legislative history or text of § 602 supports such an interpretation.” *Id.* See also 2 PAUL GOLDSTEIN, GOLDSTEIN ON COPYRIGHT § 7.6.1, at 142 (3d ed. 2007) (noting that the result of *Scorpio*, upon which *BMG Music* rests, “contradicts the policy behind section 109(a) and the terms of section 602(a)”).

Rather than simply returning to the text of the Copyright Act, however, the Ninth Circuit’s putative solution has been to stray even further from the statute by “creat[ing] an exception to *BMG Music*, . . . [whereby] § 109(a) can apply to copies not made in the United States so long as an authorized first sale occurs [t]here.” App., *infra*, 9a (emphasis added) (citing *Drug Emporium*, 38 F.3d at 481). This exception has quelled some of the policy critiques of *BMG Music*, but it has completely unhinged analysis from the statute, as evidenced by the decision below. The words “lawfully made under this title” quite clearly do not mean “manufactured in the United States, and also manufactured abroad, but only in instances where the copyright holder sells into the United States.” In *Quality King*, this Court bluntly stated that “whether or not we think [a particular rule] would be wise policy . . . is not a matter that is relevant to our duty to interpret the text of the Copyright Act.” 523 U.S. at 153. *BMG Music* and its progeny, however, including the case below, take exactly the opposite approach. By reviewing the decision below, this Court can both put focus back on the text of the statute and resolve the problems associated with Ninth Circuit’s departure from it.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted.

ROY T. ENGLERT, JR.
Counsel of Record
ARIEL N. LAVINBUK
ROBBINS, RUSSELL,
ENGLERT, ORSECK,
UNTEREINER & SAUBER
LLP
1801 K Street, N.W.
Washington, D.C. 20006
(202) 775-4500

May 2009

APPENDIX

APPENDIX A

**FOR PUBLICATION
UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT**

OMEGA S.A.,	Nos. 07-55368
<i>Plaintiff-Appellant,</i>	07-56206
v.	D.C. No.
COSTCO WHOLESALE CORPORATION,	CV-04-05443-TJH
<i>Defendant-Appellee,</i>	OPINION

Appeal from the United States District Court
For the Central District of California
Terry J. Hatter, District Judge, Presiding

Argued and Submitted
July 15, 2008—Pasadena, California

Filed September 3, 2008

Before: Barry G. Silverman, Johnnie B. Rawlinson,
and
Milan D. Smith, Jr., Circuit Judges.

Opinion by Judge Milan D. Smith, Jr.

COUNSEL

David S. Richman and Kenneth E. Johnson, Theodora Oringher Miller & Richman, P.C., Los Angeles, California; Barry R. Levy, Horvitz & Levy LLP, Encino, California, for the plaintiff-appellant.

Aaron J. Moss and Norman H. Levine, Greenberg Glusker Fields Claman & Machtinger LLP, Los Angeles, California, for the defendant-appellee.

W. Stephen Cannon and Seth D. Greenstein, Constantine Cannon LLP, Washington, D.C., for the amici curiae.

OPINION

MILAN D. SMITH, JR., Circuit Judge:

In this opinion, we address whether the Supreme Court's decision in *Quality King Distributors, Inc. v. L'anza Research International, Inc.*, 523 U.S. 135 (1998), requires us to overrule our precedents that allow a defendant in a copyright infringement action to claim the "first sale doctrine" of 17 U.S.C. § 109(a) as a defense only where the disputed copies of a copyrighted work were either made or previously sold in the United States with the authority of the copyright owner. Plaintiff-Appellant Omega, S.A. (Omega) filed claims for infringing distribution and importation under 17 U.S.C. §§ 106(3) and 602(a) in response to Defendant-Appellee Costco Wholesale Corporation's (Costco) unauthorized sale of authentic, imported Omega watches bearing a design registered at the U.S. Copyright Office. The district court granted summary judgment to Costco on the basis of

the first sale doctrine, and awarded attorney's fees. We have jurisdiction pursuant to 28 U.S.C. § 1291, and we reverse.

This circuit has construed 17 U.S.C. § 109(a) to provide no defense to an infringement action under §§ 106(3) and 602(a) that involves (1) foreign-made, nonpiratical copies of a U.S.-copyrighted work, (2) unless those same copies have already been sold in the United States with the copyright owner's authority. We hold that the first portion of this construction is not "clearly irreconcilable" with *Quality King*, and that it remains the law of this circuit. *See Miller v. Gammie*, 335 F.3d 889, 900 (9th Cir. 2003) (en banc). Because there is no genuine dispute that Omega made the copies of the Omega Globe Design in Switzerland, and that Costco sold them in the United States without Omega's authority, the first sale doctrine is unavailable as a defense to Omega's claims.

I. FACTUAL AND PROCEDURAL BACKGROUND

The facts are not disputed. Omega manufactures watches in Switzerland and sells them globally through a network of authorized distributors and retailers. Engraved on the underside of the watches is a U.S.-copyrighted "Omega Globe Design."

Costco obtained watches bearing the copyrighted design from the "gray market"¹ in the following

¹ "Gray-market' goods, or 'parallel imports,' are genuine products possessing a brand name protected by a trademark or copyright. They are typically manufactured abroad, and purchased and imported to the United States by third parties, thereby bypassing the authorized U.S. distribution channels." *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477,

manner: Omega first sold the watches to authorized distributors overseas. Unidentified third parties eventually purchased the watches and sold them to ENE Limited, a New York company, which in turn sold them to Costco. Costco then sold the watches to consumers in California. Although Omega authorized the initial foreign sale of the watches, it did not authorize their importation into the United States or the sales made by Costco.

Omega filed a lawsuit alleging that Costco's acquisition and sale of the watches constitute copyright infringement under 17 U.S.C. §§ 106(3) and 602(a), and subsequently moved for summary judgment. Costco filed a cross-motion on the basis of 17 U.S.C. § 109(a), arguing that, under the first sale doctrine, Omega's initial foreign sale of the watches precludes claims of infringing distribution and importation in connection with the subsequent, unauthorized sales. The district court ruled without explanation in favor of Costco on both motions. The court also awarded \$373,003.80 in attorney's fees to Costco under 17 U.S.C. § 505. This appeal followed.

II. STANDARD OF REVIEW

We review de novo a district court's grant of summary judgment under Federal Rule of Civil Procedure 56. *Buono v. Norton*, 371 F.3d 543, 545 (9th Cir. 2004) Rule 56(c) provides that summary judgment is warranted when the "pleadings, the discovery and disclosure materials on file, and any affidavits show that there is no genuine issue as to any

[Footnote continued from previous page]

481 n. 6 (9th Cir. 1994). Retailers are able to sell these products at a discount because the gray market arbitrages international discrepancies in manufacturers' pricing systems.

material fact and that the movant is entitled to judgment as a matter of law.” We review a district court’s award of attorney’s fees under 17 U.S.C. § 505 for an abuse of discretion. *Columbia Pictures Television, Inc. v. Krypton Broad. of Birmingham, Inc.*, 259 F.3d 1186, 1197 (9th Cir. 2001).

III. DISCUSSION

The viability of Omega’s infringement claims hinges on the relationship among three sections of the Copyright Act of 1976: 17 U.S.C. §§ 106(3), 109(a), and 602(a). In relevant part, § 602(a) reads:

Importation into the United States, without the authority of the owner of copyright under this title, of copies . . . of a work that have been acquired outside of the United States is an infringement of the exclusive right to distribute copies . . . under section 106, actionable under section 501.²

Section 106(3) states:

Subject to sections 107 through 122, the owner of copyright under this title has the exclusive rights . . . to distribute copies . . . of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending.

Finally, § 109(a) provides:

² Section 501(a) provides: “Anyone who violates any of the exclusive rights of the copyright owner as provided by sections 106 through 122, . . . or who imports copies . . . into the United States in violation of section 602, is an infringement of the copyright. . . .”

Notwithstanding the provisions of section 106(3), the owner of a particular copy . . . lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy

This last section codifies the so-called “first sale doctrine,” which holds that “[o]nce [a] copyright owner consents to the sale of particular copies of his work, he may not thereafter exercise the distribution right with respect to those copies.” 2-8 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 8.12(B)(1), at 8-156 (1978 ed.).

The text of the Copyright Act establishes by syllogism that the first sale doctrine of § 109(a) limits 602(a): First, given that § 106(3) is “subject to sections 107 through 122” and § 109 falls within the designated portion of the Code, § 109(a) limits the exclusive distribution right in § 106(3). Second, infringing importation under § 602(a) is merely a subcategory of “infringement of the exclusive right to distribute copies . . . under section 106,” so conduct that does not violate § 106(3) cannot constitute infringement under § 602(a). Finally, because conduct covered by § 109(a) does not violate § 106(3) and because absent a violation of § 106(3) there cannot be infringement under § 602(a), conduct covered by § 109(a) does not violate § 602(a). In short, infringement does not occur under § 106(3) or § 602(a) where “the owner of a particular copy . . . lawfully made under this title” imports and sells that copy without the authority of the copyright owner. 17

U.S.C. § 109(a);³ see *Quality King Distribs., Inc. v. L'anza Res. Int'l, Inc.*, 523 U.S. 135, 144-45 (1998) (adopting this interpretation).

Omega concedes that § 109(a) generally limits §§ 106(3) and 602(a), but contends that § 109(a) does not apply in this case. Specifically, Omega argues that § 109(a) provides no defense to the infringement claims because, although the Omega Globe Design was copyrighted in the United States, the watches bearing the design were manufactured and first sold overseas. Omega claims that the copies of the design were not “lawfully made under [Title 17]” in these circumstances. 17 U.S.C. § 109(a). Costco responds that although Omega’s position is correct under *BMG Music v. Perez*, 952 F.2d 318 (9th Cir. 1991), *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477 (9th Cir. 1994), and *Denbicare U.S.A. Inc. v. Toys “R” Us, Inc.*, 84 F.3d 1143 (9th Cir. 1996), the Supreme Court effectively overruled those cases in *Quality King*, 523 U.S. 135. For the reasons set forth below, we hold that *Quality King* did not invalidate our general rule that § 109(a) can provide a defense against §§ 106(3) and 602(a) claims only insofar as the claims involve domestically made copies of U.S.-copyrighted works. Because we also conclude that the exception to that rule does not apply, § 109(a) provides no defense in this case.

A. Current Rule in the Circuit

Omega’s position was clearly correct under pre-*Quality King* Ninth Circuit precedent. This court has twice held on indistinguishable facts that

³ Other parts of § 109 qualify the first sale doctrine of § 109(a), see generally 17 U.S.C. § 109, but the parties do not argue that any of those limiting provisions apply.

§ 109(a) provides no defense against a claim under § 602(a). In *BMG Music*, the defendant purchased copies of the plaintiffs' U.S.-copyrighted, foreign-manufactured sound recordings, imported them into the United States without the plaintiffs' authorization, and then sold them to the public. 952 F.2d at 319. Following *CBS v. Scorpio Music Distributors*, 569 F. Supp. 47, 49 (E.D. Pa. 1983), *aff'd without opinion*, 738 F.2d 424 (3d Cir. 1984), we held that § 109(a) provided no defense against a claim under § 602(a) in the circumstances because the phrase "lawfully made under this title" in § 109(a) "grants first sale protection only to copies legally made and sold in the United States," and the copies legally made and sold in the United States," and the copies at issue were made and first sold abroad. 952 F.2d at 319. The rationale for this interpretation was twofold: First, a contrary interpretation would impermissibly extend the Copyright Act extraterritorially. *Id.* (citing *Scorpio*, 569 F. Supp. at 49). Second, the application of § 109(a) after foreign sales would "render § 602 virtually meaningless" as a tool against the unauthorized importation of non-piratical copies because importation is almost always preceded by at least one lawful foreign sale that will have exhausted the distribution right on which § 602(a) is premised. *Id.* at 319-20 (quoting *Scorpio*, 569 F. Supp. at 49).

Drug Emporium, 38 F.3d 477, followed *BMG Music* by holding on similar material facts that § 109(a) provided no defense. However, we criticized the prior interpretation of § 109(a)'s key phrase—"lawfully made under this title." By permitting the first sale defense only against claims involving copies that are "legally made and sold in the United States," *BMG Music* appeared to give greater copy-

right protection to foreign-made copies than to their domestically made counterparts. *See* 38 F.3d at 482 n.8. We found that “such a result would be untenable, and that nothing in the legislative history or text of § 602 supports such an interpretation. *Id.*; *see also* 2 Paul Goldstein, Goldstein on Copyright § 7.6.1, at 142 (3d ed. 2007) (criticizing the approach in *BMG Music*, concluding that § 109(a) can apply to copies not made in the United States so long as an authorized first sale occurs here. *Drug Emporium*, 38 F.3d at 481.

Denbicare, which involved copies made in Hong Kong and voluntarily sold by the U.S. copyright owner within the United States, applied the exception created by *Drug Emporium*. *Denbicare*, 84 F.3d at 1145-46. The copyright owner sued under the copies and resold them without permission, but we rejected the claims: The defendant was not liable for infringing importation under § 602(a) because the disputed copies were imported by third parties prior to the defendant’s purchase and resale. *Id.* at 1149. The defendant also was not liable under § 106(3) because, in light of § 109(a) and *Drug Emporium*, the copyright owner’s voluntary sale of the copies within the United States exhausted the exclusive right of distribution. *Id.* at 1149-50.

Under these cases, Costco would not be entitled to summary judgment on the basis of § 109(a). The statute would not apply because Omega made copies of the Omega Globe Design in Switzerland and Costco sold the copies without Omega’s authority in the United States. The district court’s unexplained grant of summary judgment on the basis of § 109(a)

was at odds with *BMG Music, Drug Emporium*, and *Denbicare*.⁴

B. The Impact of *Quality King*

We next address the degree to which the Supreme Court's decision in *Quality King* invalidates this circuit's construction of § 109(a). This panel may overrule *BMG Music, Drug Emporium*, and *Denbicare* if *Quality King* "undercut[s] the theory or reasoning underlying the prior circuit precedent in such a way that the cases are clearly irreconcilable." *Miller*, 335 F.3d at 900.

1.

It is clear that *Quality King* did not directly overrule *BMG Music, Drug Emporium*, and *Denbicare*. *Quality King* involved "round trip" importation: a product with a U.S.-copyrighted label was manufactured inside the United States, exported to an authorized foreign distributor, sold to unidentified third parties overseas, shipped back into the United States without the copyright owner's permission, and then sold in California by unauthorized retailers, 523 U.S. at 138-39. The Court held that § 109(a) can provide a defense to an action under § 602(a) in this context. *Id.* at 144-52. However, because the facts involved only domestically manufactured copies, the

⁴ *Denbicare's* rejection of a § 602(a) claim due to the defendant's lack of involvement in importation suggests that Omega's claim under § 602(a) is similarly unmeritorious because, like the defendant in *Denbicare*, Costco did not import the disputed copies. See 84 F.3d at 1149. However, Costco waived this argument by not raising it in its opening brief. See *Greenwood v. FAA*, 28 F.3d 971, 977 (9th Cir. 1994) ("We review only issues which are argued specifically and distinctly in a party's opening brief."). In any event, we must still decide whether § 109(a) provides a defense against Omega's claim under § 106(3).

Court did not address the effect of § 109(a) on claims involving unauthorized importation of copies made abroad. *See id.* at 154 (Ginsburg, J., concurring) (“[W]e do not today resolve cases in which the alleging infringing imports were manufactured abroad.”). Moreover, the Court never discussed the scope of § 109(a) or defined what “lawfully made under this title” means.

2.

We next consider whether the reasoning⁵ of *Quality King* is clearly irreconcilable with our general rule that § 109(a) is limited to copies “legally made . . . in the United States.” *BMG Music*, 952 F.2d at 319; *see also Denbicare*, 84 F.3d at 1150. The basis for that rule was our concern that applying § 109(a) to foreign-made copies would violate the presumption against the extraterritorial application of U.S. law. *BMG Music*, 952 F.2d at 319 (citing *Scorpio*, 569 F. supp. at 49); *cf. Subafilms, Ltd. v. MGM-Pathe Commc’ns Co.*, 24 F.3d 1088, 1093-98 (9th Cir. 1994) (en banc) (describing the “undisputed axiom” that United States copyright law has no extraterritorial application). *Quality King* dismissed a similar concern that the triggering of § 109(a) by *foreign sales* would require an invalid extraterritorial application of the Copyright Act, explaining that merely recognizing the occurrence of such sales “does not require the extraterritorial application of the Act any more than § 602(a)’s ‘acquired abroad’ language does.” 523 U.S. at 145 n.14. Costco contends that

⁵ “[L]ower courts [are] bound not only by the holdings of higher courts’ decisions but also by their ‘mode of analysis.’” *Miller*, 335 F.3d at 900 (quoting Antonin Scalia, *The Rule of Law as a Law of Rules*, 56 U. Chi. L. Rev. 1175, 1177 (1989)).

this explanation is irreconcilable with our interpretation of § 109(a) in *BMG Music*.

We reject Costco's contention and hold that the Supreme Court's brief discussion on extraterritoriality is not "clearly irreconcilable" with our general limitation of § 109(a) to copies that are lawfully made in the United States. *Miller*, 335 F.3d at 900. The common understanding of the presumption against extraterritoriality is that a U.S. statute "appl[ies] only to conduct occurring within, or having effect within, the territory of the United States, unless the contrary is clearly indicated by the statute." Restatement (Second) of Foreign Relations Law of the United States § 38 (1965); *see also EEOC v. Arabian Am. Oil Co.*, 499 U.S. 244, 248 (1991). Recognizing the importance of avoiding international conflicts of law in the area of intellectual property, however, we have applied a more robust version of this presumption to the Copyright Act, holding that the Act presumptively does not apply to conduct that occurs abroad even when that conduct produces harmful effects within the United States. *See Subafilms, Ltd.*, 24 F.3d at 1096-98; *see also* William S. Dodge, *Understanding the Presumption Against Extraterritoriality*, 16 Berkeley J. Int'l L. 85, 101 (1998) (characterizing this circuit's approach under the Copyright Act as consistent with *American Banana Co. v. United Fruit Co.*, 213 U.S. 347, 356 (1909), which described the presumption as a "general and almost universal rule. . . that the character of an act as lawful or unlawful must be determined wholly by the law of the country where the act is done").

Given this understanding of the presumption, the application of § 109(a) to foreign-made copies would impermissibly apply the Copyright Act extra-

territorially in a way that the application of the statute after foreign sales does not. Under the latter application, the statute merely acknowledges the occurrence of a foreign event as a relevant fact. The former application would go much further. To characterize the making of copies overseas as “lawful[] . . . under [Title 17]” would be to ascribe legality under the Copyright Act to conduct that occurs entirely outside the United States, notwithstanding the absence of a clear expression of congressional intent in favor of extraterritoriality. See 17 U.S.C. § 109(a); see also *Subafilms, Ltd.*, 24 F.3d at 1096 (“There is no clear expression of congressional intent in either the 1976 Act or other relevant enactments to alter the preexisting extraterritoriality doctrine.”). Specifically, it would mean that a copyright owner’s foreign manufacturing constitutes lawful reproduction under 17 U.S.C. § 106(1) even though that statute does not clearly provide for extraterritorial application. This is precisely what we proscribed in *Subafilms*, see 24 F.3d at 1098, and *Quality King* provides no basis for rejecting our approach.

Other significant parts of *Quality King*’s analysis are also consistent with *BMG Music*’s limitation of § 109(a) to domestically made copies. The Court found that copies of a work copyrighted under Title 17 are not necessarily “lawfully made under [Title 17]” even when made by the owner of the copyright: The category of copies covered by § 602(a), it was explained, encompasses “copies that were ‘lawfully made’ not under the United States Copyright Act, but instead, under the law of some other country.” 523 U.S. at 147. Because § 602(a) extends to such copies, but on its terms permits an infringement action only by the “owner of copyright under [Title 17],” copies of a work can be lawfully made “under the law

of some other country,” rather than “under [Title 17],” even when the copies are protected by a U.S. copyright. In short, copies covered by the phrase “lawfully made under [Title 17]” in § 109(a) are not simply those which are lawfully made by the owner of a U.S. copyright. Something more is required. To us, that “something” is the making of the copies *within the United States*, where the Copyright Act applies. See 2-8 Nimmer on Copyright § 8.12(B)(6)(c), at 8-178.4(6)-(7).

We also read one of the Court’s illustrations to be consistent with this understanding. The Court stated that given

a publisher of [a] U.S. edition [of a work] and a publisher of [a] British edition of the same work, each such publisher could make lawful copies. If the author of the work gave the exclusive United States distribution rights—enforceable under the Act—to the publisher of the United States edition and the exclusive British edition, however, *presumably only those made by the publisher of the United States edition would be ‘lawfully made under this title’ within the meaning of § 109(a)*. The first sale doctrine would not provide the publisher of the British edition who decided to sell in the American market with a defense to an action under § 602(a).

523 U.S. at 148 (emphasis added and footnote omitted). Assuming the British edition was edition was

made outside the United States,⁶ this illustration suggests that “lawfully made under this title” refers exclusively to copies of U.S.-copyrighted works that are made domestically. Were it otherwise, the copies made by the British publisher would also fall within the scope of § 109(a). *See* 2-8 Nimmer on Copyright § 8.12(B)(6)(c), at 8-178.4(7).

Finally, in the decision’s only direct language on the issue, Justice Ginsburg’s concurrence cited a copyright treatise for the proposition that “lawfully made under this title” means “lawfully made in the United States.” 523 U.S. at 154 (citing W. Patry, *Copyright Law and Practice* 166-70 (1997 Supp.)). The majority opinion did not dispute this interpretation, which aligns closely with the one adopted by our circuit. *See BMG Music*, 952 F.2d at 319.

Costco contends that *BMG Music*’s limitation of § 109(a) to domestically made copies is inconsistent with the plain language of the statute and its legislative history. This criticism has been made before, including by this court. *See, e.g., Parfums Givenchy, Inc. v. C& C Beauty Sales, Inc.*, 832 F. Supp. 1378, 1386-87 (C.D. Cal. 1993), *aff’d sub nom. Drug Emporium*, 38 F.3d at 482 n.8. Perhaps most compelling is the objection that *BMG Music* would provide substantially greater copyright protection to foreign-made copies of U.S.-copyrighted works. A U.S. copyright owner, for example, would be unable to exercise distribution rights after one lawful, domestic sale of a watch lawfully made in South Dakota, but, without

⁶ The illustration offers no specific justification for making this assumption over any other regarding the site of manufacture, but *Quality King* cannot be “clearly irreconcilable” with our precedent even if the decision merely *permits* assumptions that are consistent with that precedent. *Miller*, 335 F.3d at 900.

the limits imposed by § 109(a), the same owner could seemingly exercise distribution rights after even the tenth sale in the United States of a watch lawfully made in Switzerland. The difference would likely encourage U.S. copyright owners to outsource the manufacturing of copies of their work overseas. *Drug Emporium* and *Denbicare*, however, resolved this problem by clarifying that parties can raise § 109(a) as a defense in cases involving foreign-made copies so long as a lawful domestic sale has occurred. *See Drug Emporium*, 38 F.3d at 481; *Denbicare*, 84 F.3d at 1150. Insofar as Costco contends that § 109(a) should apply to foreign-made copies even in the absence of a lawful domestic sale, the surviving rule from *BMG Music* requires otherwise. *See* 952 F.2d at 319.

In summary, our general rule that § 109(a) refers “only to copies legally made . . . in the United States,” *id.*, is not clearly irreconcilable with *Quality King*, and, therefore, remains binding precedent. Under this rule, the first sale doctrine is unavailable as a defense to the claims under §§ 106(3) and 602(a) because there is no genuine dispute that Omega manufactured the watches bearing the Omega Globe Design in Switzerland. *Id.*; Fed. R. Civ. P. 56(c); *see also Swatch S.A. v. New City, Inc.*, 454 F. Supp. 2d 1245, 1253-54 (S.D. Fla. 2006) (concluding that *Quality King* is consistent with the interpretation that “lawfully made under this title” means “legally made . . . in the United States”); 2 Goldstein on Copyright § 7.6.1, at 143-44 (concluding that *Quality King* “indicates an intention not to disturb lower court holdings that the first sale defense is unavailable to importers who acquire ownership of gray market goods made abroad”).

3.

We need not decide whether *Drug Emporium's* and *Denbicare's* exception to the rule in *BMG Music* also survives *Quality King*. There is no genuine dispute that the copies of the Omega Globe Design were sold in the United States without Omega's authority. The exception, therefore, does not apply in this case. *See Denbicare*, 84 F.3d at 1145-46 (“[Section] 109 applies to copies made abroad only if the copies have been sold in the United States by the copyright owner or with its authority.”). Because the exception does not apply, the question of its continuing viability cannot affect our conclusion that § 109(a) provides no defense to Omega's claims.

C. Attorney's fees under 17 U.S.C. § 505

The final issue is whether the district court abused its discretion in awarding attorney's fees to Costco. The Copyright Act provides for an “award [of] a reasonable attorney's fee to the prevailing party as part of the costs.” 17 U.S.C. § 505. In deciding whether to award fees under this statute, a district court should consider “the degree of success obtained; frivolousness; motivation; objective unreasonableness (both in the factual and legal arguments in the case); and the need in particular circumstances to advance considerations of compensation and deterrence.” *Columbia Pictures Television, Inc.*, 259 F.3d at 1197.

The district court's award of \$373,003.80 in attorney's fees to Costco was an abuse of discretion because neither party has prevailed in this litigation to this point.

REVERSED AND REMANDED.

APPENDIX B

**UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
WESTERN DIVISION**

OMEGA S.A., *et al.*, CV 04-05443 TJH (RCx)

Plaintiffs,

v.

Order and Judgment

COSTCO WHOLESALE
CORPORATION,
Defendant.

The Court has considered Plaintiff's motion for summary judgment, Plaintiff's motions for leave to file documents under seal, Defendant's motion for summary judgment or, in the alternative, for partial summary judgment, and Defendant's motions for leave to file documents under seal, together with the moving and opposing papers.

It is Ordered that the motions for leave to file documents under seal b, and hereby are, Granted.

It is further Ordered that Plaintiff's motion for summary judgment be, and hereby is, Denied.

It is further Ordered that Defendant's motion for summary judgment be, and hereby is, Granted.

It is further Ordered, Adjudged and Decreed that judgment b, and hereby is, *Entered* in favor of Defendant Costco Wholesale Corporation and against Plaintiff Omega S.A.

It is further Ordered, Adjudged and Decreed that Plaintiff shall take nothing.

It is further Ordered that all other pending motions be, and hereby are, Denied as moot.

It is further Ordered that the preliminary injunction be, and hereby is, Vacated.

Date: February 6, 2007

/s/

Terry J. Hatter, Jr.
Senior United States District

Judge

21a

A judge of the court requested a vote on whether to rehear the case en banc, but the request has failed to receive a majority of the votes of the nonrecused active judges in favor of en banc rehearing.

The petition for rehearing en banc is DENIED.